

The Institute was established by the Hong Kong Monetary Authority (HKMA) in August 1999 to conduct and support research on issues in monetary policy, banking and finance that are of strategic importance to Hong Kong and the Asian region.

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# Hong Kong Institute for Monetary Research -- *Newsletter*

## Two Announcements



Charles Goodhart Joseph Yam Max Hall

Professor Charles Goodhart, an overseas Advisor of the Institute since its establishment in 1999, retired from the Advisory Council in October. We would like to express our sincere gratitude to him for his assistance and advice.



Hans Genberg Glenn Stevens Matthew Yiu

Mr. Glenn Stevens, also an overseas Advisor of the Institute since the establishment, has been nominated Governor of the Reserve Bank of Australia and has resigned from the Advisory Council. We wish him every success in his governorship.

## Recent Activities

### Summer Workshop 2006

The Summer Workshop series of the HKIMR was first held in August 2003 and is now an annual event that provides a platform for a broad range of discussions on various economics fields. The Fourth Summer Workshop of the Institute was held on August 8,

2006. Five papers on different topics were presented by Charles Engel (University of Wisconsin, Madison), Graciela Kaminsky (George Washington University), Pierre Siklos (Wilfrid Laurier University), Yue Ma (Lingnan University, Hong Kong) and Yin-wong Cheung (UC Santa Cruz).



Charles Engel delivering his paper "Expectations and Exchange Rate Policy".



Pierre Siklos responding to the comments from his discussant.

## Workshop: Building and Solving Macroeconometric Models using WinSolve

The HKIMR organised a two-day workshop entitled “Building and Solving Macroeconometric Models Using WinSolve” on April 11 and 12, 2006. Richard Pierse (University of Surrey), who is the author of WinSolve, conducted the workshop.

The aim of this workshop was to learn and become familiar with the computer software WinSolve. Since the software is widely used within central banks, government departments and international organisations around the world, the workshop was attended by representatives from the People’s Bank of China, Bank Negara Malaysia, Bank Indonesia, Bangko Sentral ng Pilipinas, Bank of Thailand and Hong Kong Monetary Authority. The first day of the workshop was on the fundamentals of setting up a model. It also covered the use of models for forecasting and policy simulations. A seafood dinner was organised for all participants on the first day. The second day covered advanced modelling techniques such as stochastic simulation and optimal control, as well as looking at some of the model approximation techniques in recent literature.



Hans Genberg, Director of the Institute, delivering introductory remarks.



Richard Pierse from the University of Surrey introducing WinSolve.



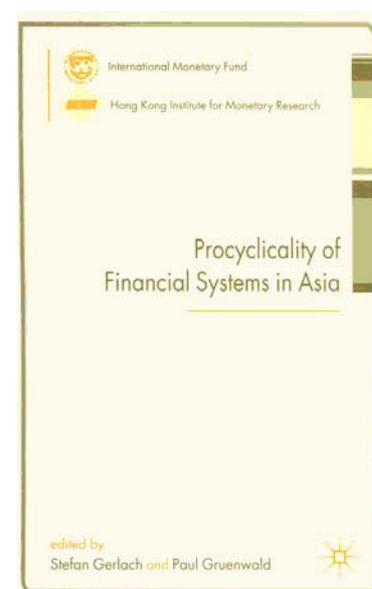
Participants from the region’s central banks



Seafood dinner

## Publication of “Procyclicality of Financial Systems in Asia”

Jointly with the International Monetary Fund, the HKIMR published its first book entitled “Procyclicality of Financial Systems in Asia” in July this year. The book contains the proceedings of the seminar held in Hong Kong in November 2004 co-hosted by both organisations. The book includes discussions about the problems of procyclical financial behaviour, possible policy responses and the effects of the implementation of Basel II on procyclicality and volatility of the financial systems in Asia.



## Conference on International Financial Markets and the Macroeconomy



Speakers and discussants of the conference

*The Institute co-organised a two-day conference entitled “International Financial Markets and the Macroeconomy” on July 13 and 14, 2006 with the International Journal of Finance and Economics.*

This conference lasted for two days and was divided into seven sessions. In the first session, Massimo Guidolin (Federal Reserve Bank of Saint Louis) presented the paper “International Asset Allocation under Regime Switching, Skew and Kurtosis Preferences”. Session Two was about “International Financial Markets and Price Determination”. Carol Osler (Brandeis University), Tarun Ramadorai (University of Oxford) and Mardi Dungey (University of Cambridge) delivered their papers on currency markets, foreign exchange markets and US Treasury market respectively.



Tarun Ramadorai (University of Oxford)

Session Three, entitled “International Bond Markets”, was chaired by Giorgio Valente (The Chinese University of Hong Kong). Eli Remolona (BIS Asian Office), Chi-sang Tam (HKMA) and Marco Sorge (World Bank) presented their papers on the pricing of sovereign risks, yield curve, and term structure of credit spreads respectively in the session. The first day of the conference ended with Charles Engel’s (University of Wisconsin, Madison) keynote lecture on “Portfolio Choice in a Monetary Open-Economy DSGE Model”.



Discussion during the conference dinner



Carol Osler (Brandeis University)

The sessions on the last day were on exchange rates, monetary policy, international financial markets and China. Speakers included Nelson Mark (University of Notre Dame), John Eatwell (University of Cambridge), David Cook (Hong Kong University of Science and Technology), Menzie Chinn, (University of Wisconsin, Madison), Isabel Yan (City University of Hong Kong), Yin-wong Cheung (UC Santa Cruz), Yue Ma (Lingnan University, Hong Kong), and Julian Du (The Chinese University of Hong Kong)



Massimo Guidolin (Federal Reserve Bank of Saint Louis)

## The Fourth HKIMR Workshop on the Mainland Economy

The HKIMR organised a two-day workshop entitled “Urbanisation and the Chinese Economy” on September 25 and 26, 2006.

In 2004 the HKIMR initiated a workshop series relating to the Chinese economy. In this workshop, nine papers were presented by both local and Mainland academics. After the opening remarks from Peter Pang, Deputy Chairman of the HKIMR Board, the workshop began with the paper “The Present and Future of Urbanisation in China: A Study Based on International Comparison”. The other papers covered different aspects of urbanisation, ranging from the relationship with economic growth, consumption growth, agricultural growth, investment in fixed assets to technological growth. All the papers are available on the HKIMR website.



Peter Pang (Deputy Chairman of the HKIMR Board) delivering the welcome speech.



Li Daokui (Tsinghua University)



Zhang Ping (Chinese Academy of Social Sciences)



He Dong (Left) and Zhang Wenlang (Right) of the HKMA jointly presenting their paper.

## Upcoming Activities

### Bond Market Conference

The Institute will co-organise a two-day conference on bond markets on December 18 and 19, 2006 with the BIS Asian Office and Professor Barry Eichengreen of UC Berkeley. The aim of the conference is to discuss the development of bond markets in Asia, Europe, and Latin America with the objective to identify factors that are important for the performance of each market. More information about the conference will be posted on our website.

### Monetary and Banking History Conference

The Institute will organise a two-day conference entitled “Hong Kong Monetary and Banking History: Hong Kong’s Current Challenges in Historical Perspective” on April 16 and 17, 2007 with Professor Catherine Schenk of Glasgow University acting as the chairperson of the conference programme. The Centre of Asian Studies at the University of Hong Kong will act as a coordinator for local academics and co-organiser of the conference. The conference will bring together scholars from Hong Kong and overseas to discuss historical studies of the Exchange Fund, the exchange rate and monetary policy, the banking industry and supervision, the banking industry in Mainland China, and the development of Hong Kong as an international financial centre.

## Visiting Fellow - Graciela L. Kaminsky



*Dr. Graciela L. Kaminsky is currently a Professor of Economics and International Affairs at George Washington University, Department of Economics and the Elliot School of International Affairs. She received her Ph.D. from the MIT and was an economist at the Board of Governors of the Federal Reserve System before joining George Washington University. She was also a visiting scholar of the International Monetary Fund, the Bank of Japan and the Hong Kong Institute for Monetary Research.*

*She visited the HKIMR for about one month from August to September 2006 to undertake a project on the currency crisis. She also acted as a speaker at the Summer Workshop of the HKIMR held on August 8, 2006.*

My first visit to the Hong Kong Institute of Monetary Research took place in the summer of 2005 and lasted a month. I enjoyed the visit so much that I decided to come back this year. I have been at the Institute for a month and this visit has been as successful as the first one.

What makes a visit worth repeating? Of course, it is the work environment, the atmosphere in the department, the people. The Institute provided me with a perfect combination: A peaceful environment (out of the hectic life at the University) to do my own research, sprinkled with an excellent seminar program and a series of visiting academics who kept me up to date with the latest research in Macro and in International Economics. One of my daily rituals has been my conversations with HKMA economists and visitors (spiced with lunches at excellent Hong Kong restaurants). That has helped me not to concentrate too exclusively on my own research but also to learn from others' research and from the HKMA staff work on macro and financial issues of Hong Kong and the East Asia region. Last, but not least, I have enjoyed one of the most beautiful views in the world, that of the Victoria Harbour and the Hong Kong Skyline from the 84<sup>th</sup> floor of the IFC building. (I should say that my productivity declined dramatically the first few days, which were spent watching out the window).

My research during these two visits has been on financial globalisation. One of the issues I wanted to examine was that of the dynamics of integration into international capital markets of both mature and emerging economies. Instead of looking at international capital flows as it is usually done, I examine gross issuance in international bond, syndicated-loan, and equity markets. This approach provides better information on access to markets since it captures not just new issuance but also the ability to roll over maturing debt. My research has allowed me to untangle global patterns of integration across the three markets and across all (mature and emerging) countries, market dynamics (one for each of the markets examined), and country/regional shocks. My research now is linking those factors to various economic fundamentals. I am also now starting to examine the patterns of international comovement of various asset prices both within and across asset classes, also in both mature and emerging countries.



**“The Institute provided me with a perfect combination: a peaceful environment, excellent seminar program and a series of visiting academics who kept me up to date with the latest research in Macro and in International Economics.”**

Not all has been work though. During my first visit, I was here with my family. During the week, we all had our own activities: My husband and I worked while our son attended sport camps. During the weekends we just had lots of fun, hiking on the many islands of Hong Kong, having great dim-sum lunches, and going up to Victoria Peak to enjoy the views from the top.

## Visiting Fellows in the Second Half of 2006

10 July – 11 August

**Charles Engel** (University of Wisconsin, Madison)

20 March – 14 April and 24 July – 18 August

**Pierre Siklos** (Wilfrid Laurier University)

7 August – 8 September

**Graciela Kaminsky** (George Washington University)

16 August – 31 December

**Chi-fai Lo** (The Chinese University Hong Kong)

21 August – 29 September

**Yuko Hashimoto** (Toyo University)

20 November – 15 December

**Eric van Wincoop** (University of Virginia)

20 November 2006 – 5 January 2007

**Frank Warnock** (University of Virginia)

20 November 2006 – 5 January 2007

**Veronica Warnock** (University of Virginia)

27 November – 24 December

**Assaf Razin** (Tel Aviv University)

### Upcoming Seminars:

**3 November 2006** *The Chinese Yuan after China's Exchange Rate Reform*, Eiji Ogawa (Hitotsubashi University)

**23 November 2006** *Deflation and Relative Prices: Evidence from Japan and Hong Kong*, Stefan Gerlach (BIS)

**13 December 2006** *Financial Conditions Indexes for Canada*, Chris Graham (Bank of Canada)

**18 January 2007** *Macroeconomic Choices and the International Financial Services Industry*, George von Furstenberg (National Science Foundation)

### Recently Published HKIMR Occasional Paper:

**No.3/2006** "A Tale of Two Markets: Bond Market Development in East Asia and Latin America" by Barry Eichengreen, Eduardo Borensztein and Ugo Panizza

## Recently Published HKIMR Working Papers

**No.6/2006** "Government without Statistics: Policy-making in Hong Kong 1925-85, with special reference to Economic and Financial Management" by Leo F. Goodstadt

**No.7/2006** "An Empirical Model of Daily Highs and Lows" by Yin-wong Cheung

**No.8/2006** "Dangerous Business Models: Bankers, Bureaucrats & Hong Kong's Economic Transformation, 1948-86" by Leo F. Goodstadt

**No.9/2006** "The Origins of Anti-Competitive Regulation: Was Hong Kong 'over-banked' in the 1960s?" by Catherine R. Schenk

**No.10/2006** "Predictability in Financial Markets: What Do Survey Expectations Tell Us?" by Philippe Bacchetta, Elmar Mertens and Eric van Wincoop

**No.11/2006** "A Portfolio Theory of International Capital Flows" by Michael B. Devereux and Makoto Saito

and more ..... please visit our web site.

## Correspondence

**ADDRESS:**  
55/F Two International Finance Centre,  
8 Finance Street,  
Central, Hong Kong

**PHONE:**  
(852) 2878-1978

**FAX:**  
(852) 2878-7006

**E-MAIL:**  
hkimr@hkma.gov.hk

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